Stock lending

*Lima Stock Exchange*
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1. Definitions and most important changes

**Definitions:**
- Stock lending is a temporary transfer of securities: spot transaction (leg 1) + future transaction (leg 2).
- It is only used to cover short sales\(^1\) and avoid fail trades.
- Lender: the original owner of the lendable securities. Borrower: the requestor of the lendable securities.
- The ownership of the securities is transferred from the lender to the borrower.
- The economic rights remain with the lender and the political rights are transferred to the borrower.
- It can be done with equities that belong to the List of Reference Values (TVR, Tabla de Valores Referenciales) 1, 2, and 3.
- In exchange for the lent securities, the borrower provides collateral to the lender.
- The Peruvian clearing house (CAVALI) is in charge of the daily mark to market and requests replacement of guarantees to the borrower if necessary.

**Most important changes:**
- Pension funds can participate in securities lending, as lenders.
- Loan Purpose: cover operations pending settlement, securities lent are not freely available.
- Collateral constitution:
  - Main guarantee (100%): equities, fixed income and cash.
  - Additional guarantee (20%): equities, fixed income, cash and letters of guarantee.
- Early settlement: the deadline for asking an early settlement was removed.
- Extraordinary situations and delivery of benefits: the operation is settled in advance when there is an extraordinary situation or a preferential subscription on the lent security.

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\(^1\) Short sales can be traded only with shares and securities representing rights to shares that belong to the Lists 1 and 2 of the Table of Reference Values.
2. Advantages of the securities lending model

- Tax efficient model, only if it is through the Lima Stock Exchange (BVL for its acronym in Spanish)
- Stock market transaction regulated by rules of the BVL (not mutual).
- Regulatory clarity facing the existence of corporate events.
- CAVALI classifies guarantees by borrower and by operation.
- Intangible guarantees in CAVALI, according to the Stock Market Law.
- The lender chooses the counterparties (maximum of 5).
- The brokers are the counterparties and responsible for the transaction.
3. Economic rationality

- **Lender**: Provider of a lendable securities portfolio through a Broker Agent
  - Interest on the securities lent.
  - Lender maintains dividends and bonus shares.
  - Operational convenience (SOR -Trader Workstation).
  - Control and services provided by CAVALI.

- **Borrower**: Requests the lendable securities
  - Borrower implements short selling strategies and receives the yield.
  - The transaction facilitates compliance.
  - Cash collateral receives interests.
  - Operational convenience (SOR -Trader Workstation).
  - Control and services provided by CAVALI.

The market will have a dynamic performance, hence, more liquidity of the Peruvian stock market
4. Procedure

**Leg 1**
Spot transaction

**Lent securities**

**Broker Agent**
(Lender)

**Leg 2**
Future transaction

**Guarantees**

**Broker Agent**
(Borrower)

**Lent securities**

**Lent securities**:
Spot amount = Spot price \times Amount negotiated

**Guarantees**:
Main guarantee + Additional guarantee \geq Hedge amount
4. Procedure: Example with a short sale

Example 1
FL1 = 04/08/2015
FL2 = 02/11/2015

04/08/2015
FL1

1. Borrower trades a short sale.
2. Borrower and lender trade a stock loan.
3. Leg 1 of stock loan is settled on T + 0.
4. Borrower settles the short sale (FL1 = t + 0).

Example 2
FL1 = 04/08/2015
FL2 = 02/11/2015

02/08/2015
Borrower trades a short sale

03/08/2015
Beginning of stock loan

04/08/2015
FL1
Settlement of leg 1 of stock loan in t+1

05/08/2015
Borrower settles short sale

02/11/2015
FL2

Stock Loan Term: 90 days

1 Before making a short sale, the broker agent should have traded or have orders for a stock loan at a market value rate and with a settlement date until the settlement of the short sale, or have orders to make a purchase of securities in the spot market at a market price. This operation must be intended to cover the short sale.
5. Assets allowed in the operation

### Lendable assets

- **Loan**

### Assets subject to be granted as collateral

#### Main guarantee (100%)
- Equity: Lists of Reference Values 1, 2 y 3
- Fixed Income Values: List of Reference Values
- Cash

#### Additional guarantee (20%)
- Equity: Lists of Reference Values 1, 2 y 3
- Fixed Income Values: List of Reference Values
- Cash
- Letters of guarantee

#### Additional assets:
- Bonds (rating ≥ BBB-)
  - Financial leasing
  - Corporate
  - Mortgage
  - Subordinate
  - Securitization
  - Public sector
- Short term instruments (rating ≥ CP-3)
  - CDs
  - Treasury bills
  - Commercial papers

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1 Uncovered sales may be made only with securities from the Lists of Reference Values 1 and 2.
6. Investment limits

<table>
<thead>
<tr>
<th>According to the Operations Rules of Lima Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By security</strong>: up to 20% of all registered shares in book-entry form of CAVALI. As to foreign securities, it is considered 20% of the total issue registered in the trading mechanism.</td>
</tr>
<tr>
<td><strong>By intermediary</strong>: up to 50% of the limit set by security.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>According to Title VI of Investments of the Compendium of Regulatory Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 30% of the value of each category of fund.</td>
</tr>
</tbody>
</table>

*Important*: the 20% limit by security considers both the securities lending transaction and the repo transactions.
7. Guarantee: amounts and objective

Guarantee

- Main guarantee (100%)
- Additional guarantee (20%)

Objective

- Covers the risk of default of the future transaction (FL2)
- Covers the risk of revaluation of the securities lent and the devaluation of the main guarantee.

Hedge Amount \(^1\) (120% of stock loan)

- CAVALI is in charge of the daily mark to market and the margin call to the borrower if necessary.

\(^1\) Hedge amount: Sum of the percentages determined for the main and additional guarantee = 120%.
## 7. Guarantee’s management

<table>
<thead>
<tr>
<th>Guarantees</th>
<th>Main</th>
<th>Additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>Transfered and blocked in the lender’s account in CAVALI</td>
<td>Blocked in the borrower’s account in CAVALI, in favor of the lender.</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Transfered and blocked in the lender’s account in CAVALI</td>
<td>Blocked in the borrower’s account in CAVALI, in favor of the lender.</td>
</tr>
<tr>
<td>Cash</td>
<td>Blocked in a bank account in the name of CAVALI, in favor of the lender. The interests generated in the bank account belong to the borrower.</td>
<td>Blocked in a bank account in the name of CAVALI, in favor of the lender. The interests generated in the bank account belong to the borrower.</td>
</tr>
<tr>
<td>Letters of guarantee</td>
<td>Issued in the name of CAVALI</td>
<td>Issued in the name of CAVALI</td>
</tr>
</tbody>
</table>
8. Corporate events and extraordinary situations

**Delivery of benefits**
- Bonus shares
- Cash dividends
- Subscription right
- Interests/Partial redemption of debt

**Extraordinary situations**
- Change in nominal value
- Change in the securities amount
- Public offers

**Political rights**

**Lent securities**
- Lender retains the economic right. Borrower will return a compensation for the benefit to the lender.
- Early settlement.

**Main guarantee**
- They are recorded as guarantee from date of delivery of the benefit.
- Early settlement
- Max. Punishment TVR + 10%.

**Additional guarantee**
- They are recorded as guarantee from date of delivery of the benefit.
- Max. Punishment TVR + 10%.

- According to Law 30052 Operations Report, political rights are transferred to the borrower.
- Early settlement
- Max. Punishment TVR + 10%.
9. Early settlement

Early settlement

Agreement¹

Lender and borrower can settle early. Borrower pays interest for the real term.

No agreement

Only the borrower can settle early. Borrower pays interest for the period originally agreed.

¹In the trading system screen, the checkbox for early settlement is checked by default.
10. Default in the settlement date

Borrower client defaults

CAVALI informs the noncompliance to the affected broker agent and to the Bureau of Market Surveillance (BVL).

1. The defaulted broker agent is suspended¹.

2. The affected broker agent must communicate its decision for the forced execution or the abandonment of the operation, until 17:45hrs of the noncompliance day.

- Communicates decision up to 17:45hrs
  - Abandonment of operation
  - Forced execution

- Does not communicate decision before 17:45hrs
  - Forced execution

¹ Note that the punishment is a suspension to participate in negotiation and that this does not release it from the obligation to comply with the liquidations of all pending operations.
10. Default in the settlement date

Abandonment of the operation

All the securities from the main guarantee and a part of the additional guarantee up to the amount that covers the liquidation of the operation (future amount, this amount includes interests) are adjudicated to the affected broker agent. The remaining amount is given back to the borrower.

End of suspension of the defaulted broker agent.

Forced execution

The BMS selects the broker agent through which the execution will take place, by drawing lots among broker agents authorized to operate.

- Cash guarantees: used to buy the securities lent.
- Guarantees in securities: sold to buy the securities lent.

BVL informs to CAVALI the conditions under which the execution was held and CAVALI calculates the amount for the affected broker agent, including interests until the payment day.

In case of a shortfall of resources, CAVALI informs to the BMS and to the defaulted broker agent to ask for the payment of the difference, at most the following day.

If there is an excess of amount, CAVALI will return the excess to the borrower.

Suspension of the defaulted broker agent remains until it pays all the requested amount.

End of suspension of the defaulted broker agent.
11. Proposal: SOR-Trader Workstation

In order to put a proposal in the trading system, the screen is the following:

- **Nemo**: a value of the list 1, 2 and 3 of the TVR.
  - The menu offers all the equity values, it is necessary to know the list where each one belongs.
  - Here one selects the currency
- **Libro**: Select the book “Reporte” that includes securities lending.
- **T. Propuesta**: Select Limit.
- **Vigencia**: Select DAY.
- **Tipo**: Select Préstamo
- **Precio**: The reference price for securities lending appears automatically, and it can be modified by the higher or equal reference price.

- **Cantidad**: Put the number of values..
- **Liquidación**: If it is desired a liquidation for the first leg in t+0 or t+1
- **Tasa de interés**: interest rate
- **Plazo**: maximum term is 360 days. It must be a trading business day, otherwise, the proposal will be rejected.
- **Checkbox Liq. Anticipada**: it is selected by default. A value for the additional rate must be put, min 0.001%, otherwise the proposal will be rejected.
- **Contrapartes**: it is optional to select the counterparties, up to five.
- **Garantías**: put the guarantees
### 12. New commissions scheme

**Fee’s exemption for operations of stock lending**

**BVL and CAVALI until July 31st 2016 and SMV until December 31st 2016**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Previous fees</th>
<th>Current fees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spot transaction</td>
<td>Future transaction</td>
</tr>
<tr>
<td></td>
<td>(first sale)</td>
<td>(second sale)</td>
</tr>
<tr>
<td>CAVALI</td>
<td>0.016%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0.008%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>BVL</td>
<td>0.012%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0.006%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>SMV</td>
<td>0.005%</td>
<td>0.005%</td>
</tr>
<tr>
<td>Guarantee fund</td>
<td>0.000%</td>
<td>0.000%</td>
</tr>
<tr>
<td><strong>Total&lt;sup&gt;3&lt;/sup&gt;</strong></td>
<td><strong>0.0330%</strong></td>
<td><strong>0.0190%</strong></td>
</tr>
<tr>
<td><strong>Total + VAT&lt;sup&gt;4&lt;/sup&gt;</strong></td>
<td><strong>0.0380%</strong></td>
<td><strong>0.0215%</strong></td>
</tr>
</tbody>
</table>

1. Applied on transactions greater than or equal to 30 days. For shorter periods the equivalent rate is applied.
2. Applied on transactions of 30 days. For greater or shorter periods the equivalent rate is applied.
3. Does not include broker’s fee.
4. VAT does not apply for SMV’s fee.
Annex
## 13.1 Annex: Table of reference values for equities

Current list from April 1st, 2016

**TABLA DE VALORES REFERENCIALES - OPERACIONES DE REPORTE CON RENTA VARIABLE**

**vigente a partir del 1 de Abril de 2016**

### ACCIONES DE CAPITAL

**LISTA 1**

<table>
<thead>
<tr>
<th>Acción de Capital</th>
<th>Referencia</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALICORC1</td>
<td>IFS</td>
<td>VOLCABC1</td>
</tr>
<tr>
<td>BAP</td>
<td>MILPAC1</td>
<td></td>
</tr>
</tbody>
</table>

**LISTA 2**

<table>
<thead>
<tr>
<th>Acción de Capital</th>
<th>Referencia</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATACOB1</td>
<td>OVERDEC1</td>
<td>LUSURC1</td>
</tr>
<tr>
<td>BVN</td>
<td>FERREY1</td>
<td>RELAPAC1</td>
</tr>
<tr>
<td>CONTINC1</td>
<td>GRAMONC1</td>
<td></td>
</tr>
<tr>
<td>CPACASC1</td>
<td>INRETC1</td>
<td></td>
</tr>
</tbody>
</table>

También se consideran en la **LISTA 2 los valores que cuenten con un Formador de Mercado: HBM**

**LISTA 3**

<table>
<thead>
<tr>
<th>Acción de Capital</th>
<th>Referencia</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>BROCALC1</td>
<td>EDELOC1</td>
<td>TEF</td>
</tr>
<tr>
<td>CASACRC1</td>
<td>ENGIEC1</td>
<td>TELEFBC1</td>
</tr>
<tr>
<td>CORAREC1</td>
<td>SCCO</td>
<td>TV</td>
</tr>
<tr>
<td>CREDITC1</td>
<td>SCOTIAC1</td>
<td>UNACEMC1</td>
</tr>
<tr>
<td>EDEGELC1</td>
<td>SIDERC1</td>
<td></td>
</tr>
</tbody>
</table>

### ACCIONES DE INVERSION

**LISTA 1**

<table>
<thead>
<tr>
<th>Acción de Inversión</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>MINSURI1</td>
<td></td>
</tr>
</tbody>
</table>

**LISTA 2**

<table>
<thead>
<tr>
<th>Acción de Inversión</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORAREBI1</td>
<td></td>
</tr>
</tbody>
</table>

**LISTA 3**

<table>
<thead>
<tr>
<th>Acción de Inversión</th>
<th>Valor del Mercado</th>
</tr>
</thead>
<tbody>
<tr>
<td>BACKUSI1</td>
<td></td>
</tr>
</tbody>
</table>

**CPACASI1**

### 13.2 Annex: Table of reference values for fixed income

**Current list from monthly report of April 2016**

#### Bonds

<table>
<thead>
<tr>
<th>Corporate (185)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AHIOL1BC1C</strong> A+</td>
<td><strong>BRIPL3BC3A</strong> A+</td>
</tr>
<tr>
<td><strong>AHIOL1BC2C</strong> A+</td>
<td><strong>CRED4BC10A</strong> AAA</td>
</tr>
<tr>
<td><strong>AHIOL1BC2C</strong> A+</td>
<td><strong>EDE4BC13A</strong> AAA</td>
</tr>
<tr>
<td><strong>AHIOL1BC2C</strong> A+</td>
<td><strong>EDE4BC15A</strong> AAA</td>
</tr>
<tr>
<td><strong>AHIOL1BC2C</strong> A+</td>
<td><strong>EDE4BC16A</strong> AAA</td>
</tr>
<tr>
<td><strong>AKALP1BC1A</strong> A+</td>
<td><strong>CRED4BC0A</strong> AAA</td>
</tr>
<tr>
<td><strong>ALOC03BC1A</strong> AAA</td>
<td><strong>CIU1DA1BC1A</strong> pA</td>
</tr>
<tr>
<td><strong>ALOC03BC2A</strong> AAA</td>
<td><strong>CSCOT1BC4A</strong> AAA</td>
</tr>
<tr>
<td><strong>ALOC03BC2A</strong> AAA</td>
<td><strong>EDE4BC4A</strong> AAA</td>
</tr>
<tr>
<td><strong>ALOC03BC2A</strong> AAA</td>
<td><strong>EDE4BC5A</strong> AAA</td>
</tr>
<tr>
<td><strong>ALOC03BC2A</strong> AAA</td>
<td><strong>FALARRBC1C</strong> A+</td>
</tr>
<tr>
<td><strong>ANDIN1BC3A</strong> AAA</td>
<td><strong>CREDI1BS1A</strong> AAA</td>
</tr>
<tr>
<td><strong>ATEL5BC2C</strong> AAA</td>
<td><strong>CREDI1BS1A</strong> AAA</td>
</tr>
<tr>
<td><strong>ATEL5BC2C</strong> AAA</td>
<td><strong>DELESBC11A</strong> AAA</td>
</tr>
<tr>
<td><strong>ATEL5BC3A</strong> AAA</td>
<td><strong>DEGESBC10A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>CONTIB1CLU</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>CONTIB1CLU</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>GLORBC8A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>ICIC1BC1A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>ICIC6BC2A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFA1L1BC1A</strong> AAA</td>
<td><strong>MBANBC1CA</strong> AAA</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>GLORBC8A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>JALEM1BC1A</strong> A+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>JPLAZ1BC1A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>PUNGB1CA</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>SCOT1BC8A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>SCOT1BC8A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>SCOT2BC3A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>SCOT2BC3A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>SCOT2BC5A</strong> AA+</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>YURA1BC3A</strong> AAA</td>
</tr>
<tr>
<td><strong>BFIN1BC1A</strong> AAA</td>
<td><strong>YURA1BC3A</strong> AAA</td>
</tr>
</tbody>
</table>

#### Short Term Instruments

<table>
<thead>
<tr>
<th>Cds (16)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BIF3CD1D</strong> CLA=</td>
<td><strong>FCONF1CD4D</strong> CP=1</td>
</tr>
<tr>
<td><strong>BRIPL4CD1C</strong> CP=1</td>
<td><strong>FCONF1CD4B</strong> CP=1</td>
</tr>
<tr>
<td><strong>BRIPL4CD1D</strong> CP=1</td>
<td><strong>FCONF1CD3A</strong> CP=2</td>
</tr>
<tr>
<td><strong>BRIPL4CD1E</strong> CP=1</td>
<td><strong>FCONF1CD3A</strong> CP=1</td>
</tr>
<tr>
<td><strong>COMPF1CD2A</strong> CP=1</td>
<td><strong>FCONF1CD3B</strong> CP=2</td>
</tr>
<tr>
<td><strong>FCONF1CD4A</strong> CP=1</td>
<td><strong>FCONF1CD3B</strong> CP=2</td>
</tr>
</tbody>
</table>

#### Treasury bills (11)

| **LTP01JUN16**                          | **LTP41JUN16**                          |
| **LTP03NOV16**                          | **LTP41JUN16**                          |
| **LTP04AUG16**                          | **LTP41JUN16**                          |
| **LTP05OCT16**                          | **LTP41JUN16**                          |
| **LTP07JUN16**                          | **LTP41JUN16**                          |
| **LTP11JUL16**                          | **LTP41JUN16**                          |

#### Comercial papers (14)

| **CHAV1CLPK** p2                       | **MEDRO1CP2** CLA=1                     |
| **CHAV1CLPL** p2                       | **MEDRO1CP2** CLA=1                     |
| **CHAV1CP1** p2                         | **MEDRO1CP2** CLA=1                     |
| **CHAV1CP1** p2                         | **OBRA2CP2** CP=2                       |
| **CHAV1CP1** p2                         | **PORTA1CP2C** EQL=2                    |
| **ELVIA1CP1** p2                        | **PORTA1CP3** EQL=2                     |
| **ELVIA1CP1** p2                        | **PORTA1CP3** EQL=2                     |
| **ELVIA1CP1** p2                        | **PORTA1CP3** EQL=2                     |

#### Financial leasing (17)

| **BFINA1BA1A** AA                       | **CONIB1BA1A** AAA                      |
| **BFINA1BA1B** AA                       | **CRED11BA6A** AAA                      |
| **BFINA1BA1C** AA                       | **CRED11BA6A** AAA                      |
| **BFINA1BA1D** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1D** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1D** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1E** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1F** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1G** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1H** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1I** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1J** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1K** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1L** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1M** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1N** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1O** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1P** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1Q** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1R** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1S** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1T** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1U** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1V** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1W** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1X** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1Y** AA                       | **INVEST1BA1A** AAA                     |
| **BFINA1BA1Z** AA                       | **INVEST1BA1A** AAA                     |


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**Brady (1)**

| PERU-PAR |
|---|---|

**Table including monthly data for May 2016 for income**

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**Stock Lending – May 2016**
13.3 Annex: Link to the rules of operations

Securities lending model is updated in the New Operating Rules, according to SMV Resolution Nº008-2015-SMV/01, which is valid since May 4th, 2015:
http://wwwelperuano.com.pe/NormasElperuano/2015/05/02/1231628-1.html

The Articles regarding the model are:

Article 27: Selection of the equities allowed
Article 28: Guarantee or margin
Article 42: Securities lending operation
Article 43: Delivery of benefits
Article 46: Early settlements
Article 47: Extraordinary situations
Article 49: Defaults
Article 50: Defaults in the repo or securities lending operation
Article 51: Application of the guarantee and margin

Also, the complementary dispositions of these articles are published on the website of the Stock Exchange.

13.4 Annex: Interest rate of repo transactions

- Repo transactions volume in USD represented 47% of the total volume in 2015.
- Repo transactions volume on Equities in USD and PEN represented 84.3% of the total number of operations in 2015.
Frequently Asked Questions (FAQ)
14. FAQ

Pre-trading

1. What is the regulatory framework for stock lending?
2. What are the agreements agreed between participants?
3. Which securities are lendable?
4. Can pension funds lend the stocks of their managed portfolios?
5. Are pension funds ready to lend?

Trading

6. What are the maximum periods of time to participate in a stock lending transaction?
7. Is it possible to cover a short sale with a security lending transaction and settle the short sale in the same day “t”?
8. Who are the counterparties?
9. How many counterparties can be selected in the trading system?
10. What is the procedure when a foreign investor acts as a lender?
11. What is the procedure when a foreign investor acts as a borrower?
12. What is the cost of doing a stock lending transaction?
14. FAQ

Post-trade

Collateral
13. What are the risks and mitigating factors in the operation?
14. How is the collateral provided by the borrower agent maintained?
15. How does the recall provision work?
16. How is the reporting of collateral details to be presented to the lender?
17. How does CAVALI manage the collateral given as cash?

Early settlement
18. What are the procedures for early settlements?

Political and economic rights
19. What happens to the political rights?
20. How can the lender be assured of the return of economic rights?
21. What happens when dividends on lent securities are delivered?
22. How is the tax payment handled when a delivery of dividends on lent securities occurs?
14. FAQ

Post-trade

Default
23. What happens in a default situation in the second operation?
24. Who is responsible for a default over the lent securities?

Other
25. What is the accounting process if a pension fund wants to lend its securities?
26. What happens if a security of the collateral is suspended?
27. What happens if the borrower agent is suspended in the settlement date?
28. What happens in the remote case of CAVALI’s bankruptcy?
14. FAQ (answers)

Pre-trading

1. There are three regulatory schemes:

   1.1 Operations rules and supplementary provisions:
   Resolution CONASEV N° 021-1999-EF/94.10 (last modification with Resolution SMV N° 025-2015-SMV/01)
   - Article 27: Selection of the assets allowed in the operations
   - Article 28: Guarantee or margin
   - Article 42: Securities lending operations
   - Article 43: Benefits of a securities lending operation
   - Article 46: Early settlement of securities lending operation
   - Article 47: Extraordinary situations
   - Article 49: Defaults
   - Article 50: Defaults in the repo or securities lending operation
   - Article 51: Application of the margin and collateral

   1.2 Law N° 30052 – Repo Transactions Law
   - All, with the exception of Article 4 and Article 5.

   1.3 Title 6 of Investment of pension funds
   - Compendium of Regulatory Standards of Pension Funds System- Title VI : Investments
     - Subchapter II – A: Securities lending operations
     - Article 75H: Limits applicable to repo transactions and securities lending negotiated in centralized and not centralised trading mechanisms.
   - Title VI amended by SBS Resolution No. 3233-2015
     - The Compendium of Regulatory Standards of Pension Funds System was modified.

   1.4 Rules of broker agents
   - Modification of the Rules of broker agents through SMV Resolution Nº 011-2016-SMV/01.

2. There are agreements between the lender and the lender agent, between the borrower and the borrower agent and between the short seller and the short seller agent.

3. The lender can only lend equities belonging to the lists 1, 2 and 3 from the Table of Reference Values, calculated and published quarterly by BVL. Short sales can be done with equities from the lists 1 and 2 only. The current table is available at http://www.bvl.com.pe/estadist/Nuevatvr.pdf
   - For further details about the methodology of construction, consult the Supplementary Provision of Article 27 of the Operation Rules

4. Yes, up to 30% of the total value of each category of fund. It is only allowed for them to lend securities from the List of Reference Values 1, 2 and 3.

5. At a regulatory level, both the Operations Rules of Lima Stock Exchange and the Title 6 of Investments for Pension Funds allow them to participate as lenders. At an operational level, they are in the process of adaptation of their investment policies, and up to date one pension fund made a securities lending operation.
14. FAQ (answers)

Trading

6. In order to settle the first operation, it is possible to select the settlement date 1 (FL1) for the same day (t) or the following day (t+1). In order to settle the second operation, the term (FL2) can be selected up to 360 days counted since the settlement date 1 (FL1).

7. It is possible. For that, the short seller must negotiate a security lending with settlement date of the first operation (FL1) in the same day “t”.

8. The counterparties are the broker agents, and they are responsible for their own final clients. Neither the borrower nor the lender know who is behind each broker agent as client.

9. Millennium system allows to select up to 5 counterparties only if the broker wants to limit the participants in the negotiation. If not, no counterparty is selected.

10. The foreign investor sends instructions to the custodian in order to deliver the securities lent to the broker agent. The remaining process works as the local model.

11. The foreign investor sends instructions to the custodian in order to deliver the collateral (cash or shares) to the broker agent. The remaining process works as the local model.

12. Currently, there is a fee’s exemption for BVL and CAVALI, until July the 31st 2016. SMV’s exemption will be until December 31st 2016. These apply for both the first and second operation in a stock lending transaction.

On the other hand, short sales fees are 0.021% for BVL and 0.0075% for guarantee fund.

Post-trading

Collateral

13. There is a risk of noncompliance in returning the securities to the lender, but this is mitigated by the collateral given by the borrower. Another risk is the devaluation of the collateral or appreciation of the loan value. In this case, CAVALI asks for a margin call to the borrower broker agent. If it fails to deliver the additional collateral, there are penalties for the borrower broker agent.

14. The collateral remains blocked and untouched in CAVALI, with the 100 % (main guarantee) registered in an account in favor of the lender and the 20% (additional guarantee) is registered in the account of the borrower. If the terms of the operation are interrupted for any reason, the lender may (i) abandon the operation or (ii) ask for a forced execution.
14. FAQ (answers)

Post-trading

Collateral

15. CAVALI asks for margin calls to the borrower agent when a) there is a mismatching of 2% or more between the updated amount of coverage and the assets given as collateral or b) the updated valuation of the additional guarantee fails to comply with the following rule: the valuation of the additional guarantee assets must be in every moment greater than or equal to max (initial additional guarantee, updated coverage amount - updated main guarantee).

If the failure happens over both criteria, the margin call is calculated as the difference with respect to the max (initial additional guarantee, updated coverage amount - updated main guarantee)

CAVALI will make the request after concluding the daily valuation, and the borrower agent must comply with this replacement as indicated in the Peruvian Rules of Operations.

The margin calls are constituted as additional guarantee. In that sense, CAVALI will block the margin call in the borrower's account.

16. CAVALI and BVL have been working with the regulator and pension funds for a final structure of the report.

17. Both the main guarantee (100%) and the additional guarantee (20%) given as cash are managed by CAVALI in a bank account in its name, generating a minimum interest which belongs to the borrower (original owner of the guarantee). Within their records, CAVALI recognizes that the main guarantee is in the name of the lender, while the additional guarantee is in the name of the borrower.

Early settlement

18. If there is prior agreement of early settlement, both the lender and the borrower can ask for it, and the borrower pays interest for the real period of time. If there was no prior agreement of early settlement, only the borrower ask for it, and the borrower pays interest for the whole term originally agreed.

Political and economic rights

19. The political rights are transferred with the ownership of the securities to the new holder. If the lender wants to execute the political right, it is possible to:

- Before the beginning of the security lending: a) lend a portion of the securities that does not affect the political right or, b) define a settlement date that does not interfere with board meetings assistance.
- When already initiated: early settlement.
14. FAQ (answers)

Post-tradin

Political and economic rights

20. The return is mandatory according to Article 43 of the Operations Rules of Lima Stock Exchange.

21. At the settlement date, the borrower must return to the lender an equivalent amount of the dividends received for the lent securities.

22. According to regulation, the pension funds are tax exempt for their dividends income. It is important to clarify that the lender doesn’t receive the dividend in the date of delivery, but in the settlement date of the stock lending operation, as a “compensation for dividends not received” that is an amount equivalent to the whole dividend, without taxation. If the lender is not a pension fund, it is mandatory to apply taxation.

Default

23. If the borrower agent defaults in the settlement, it is suspended until the lender agent chooses to abandon the operation or receives back the securities due to a forced execution of the operation. The choice depends on the lender broker agent.

24. In case of a dividends payment during the term of the loan, this dividend will be paid by the Issuer, through CAVALI, to the person who appears as owner-in record date- of the securities of the loan.
At the settlement of the operation, the Borrower must provide to the Lender (either an AFP or any other client), and through CAVALI, an economic compensation equivalent to the total amount of the dividend paid by the Issuer (gross dividend, without discount). This is because the one who receives the securities on loan (borrower) uses them to settle a transaction that has already been made (remember that the securities received from a stock loan can only be used to settle a short sale or a transaction with pending settlement); as a result, the borrower will never receive the dividend because the securities are not under his ownership. What the borrower received were shares entitled to a dividend and, if the record date occurs during the term of the transaction, in the settlement date he must return to the lender the share ex-right + dividend (the share price is reduced by the application of the dividend).
14. FAQ (answers)

Post-trading

Other

25. The securities lent by the AFP through a lender broker agent remain in the accounts of the managed portfolio, even though the ownership is transferred to the borrower (considering the nature of “temporal transfer of securities”, according to the Law of Repo Operations), until the settlement date of the second operation, when the securities have to be returned from the borrower to the lender. Following the same criteria, the securities given by the borrower as guarantee do not count as part of the managed portfolio of the AFP, even when the main guarantee is in CAVALI in the name of the lender.

Also, dividends and other economic rights over the securities lent are delivered to the current holder of securities but at the settlement date the borrower broker agent must return them to the lender broker agent, as a compensation for economic rights non received.

26. The procedures described in Article 47 of extraordinary situations are applied. For the main guarantee assets: a) early settlement within 10 days of the announcement of the situation, and the borrower pays interest for the real period of time, or b) keep the operation alive but using other valuation criteria (greater punishment for valuation). For additional guarantees assets: the operation is kept alive by applying other valuation criteria (greater punishment for valuation). Another option is to change guarantees, following the procedure detailed in the Supplementary Provision of Article 28.

27. For any suspension reason, the broker agent is denied to continue negotiating new operations, but must continue meeting their responsibilities for the settlements of all pending operations.

28. According to Article 237 of the Securities Market Law, the values from the main and additional guarantees that are blocked under custody of CAVALI cannot, under any circumstances, be part of the assets in liquidation. In addition, the Law N° 27649 refers to the immunity from seizure of accounts that prevents that resources owned by customers and holders that integrate CAVALI accounts be subject to a precautionary measure. Similarly, Article 108 of the Rules of Clearing Houses indicates that in no case the securities registered in the clearing house or the resources generated by settlement, by collateral management, by the management of the resources of hedging mechanisms for settlement risks or by the distribution of benefits or rights on such securities, constitute a part of the assets in liquidation.
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Securities lending